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POST ENERGY CORPORATION



1995 ANNUAL REPORT

POST ENERGY CORPORATION

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A N N U A L M E E T I N G

The Company's Annual General Meeting will be held at 3:00 p.m. on Friday June 7, 1996 in the Bonavista Room of the Westin Hotel located at 320 - 4th Avenue S.W. All shareholders are encouraged to attend. If unable to attend, shareholders are requested to complete and return the Form of Proxy to the Company's registrar and transfer agent, Montreal Trust Company of Canada.

A B B R E V I A T I O N S

used in this annual report

ARTC	Alberta Royalty Tax Credit
bbls	Barrels
bbls/d	Barrels per day
mbbls	Thousand barrels
mbbls/d	Thousand barrels per day
boe	Barrel of oil equivalent
boe/d	Barrel of oil equivalent per day
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
mmcf	Million cubic feet
mmcf/d	Million cubic feet per day
WTI	West Texas Intermediate

Units of natural gas have been converted into barrel of oil equivalents at a ratio of ten thousand cubic feet of gas to one barrel of oil.

CORPORATE HIGHLIGHTS

	1995	1994	1993	1992
FINANCIAL (\$000's except per share amounts)				
Oil and gas revenue	5,351	1,651	309	26
Cash flow	2,663	962	46	-10
Per share (basic)	0.28	0.12	0.01	-
Per share (fully diluted)	0.27	0.11	0.01	-
Net earnings	813	376	6	-13
Per share (basic)	0.09	0.05	-	-
Per share (fully diluted)	0.08	0.04	-	-
Capital expenditures	6,480	4,548	1,327	471
Shareholders' equity	8,035	5,328	2,781	-12
Total assets	11,436	6,415	5,281	2,235
Year end market capitalization	20,984	21,022	6,725	-
Net asset value per share (at 15% pre-tax discount)				
Basic	2.39	2.37	2.26	0.69
Fully diluted	2.32	2.34	1.77	0.71
Common shares outstanding at year end				
Basic	10,492	9,343	6,405	3,000
Fully diluted	12,245	9,562	9,523	5,791

PRODUCTION

Oil				
Bbl	171,679	57,881	17,143	985
Bbls/d	470	159	47	3
Natural gas				
Mcf	1,347,980	285,299	-	-
Mcf/d	3,693	782	-	-
Barrels of oil equivalent				
Boe	306,477	86,411	17,143	985
Boe/d	840	237	47	3
Average selling prices				
Oil per bbl	22.02	20.50	18.50	26.41
Gas per mcf	1.18	1.80	-	-
Average netback per boe	10.85	11.89	4.73	1.64

RESERVES (proven plus probable)

Mbbl of oil	3,699	3,388	1,061	406
Mmcf of natural gas	16,645	12,337	10,484	-
Mboe	5,364	4,622	2,109	406
Present value (\$000's) at 15% pre-tax discount	26,657	22,500	13,455	2,564

PRESIDENT'S MESSAGE

Post Energy Corporation continued its growth in 1995, a year that challenged many companies in this industry. Lower gas prices made it difficult to maintain cashflow and earning levels, therefore, reducing activity in the sector. Post managed to increase cashflow, earnings and capital expenditures in 1995. This is a sign that Post can adjust to changing industry conditions, which is a key factor in today's formula for success. Increasing production from existing assets was Post's mission for 1995 and this was achieved. The addition of qualified and experienced people in the accounting and land departments continued Post's philosophy that a strong management team is important.

STRENGTHS AND PHILOSOPHY

Post's success is the result of a specialized group of people who have the ability to find and develop oil and gas reserves in areas where most companies are afraid to venture. These areas are older oil and gas fields that now have residential and industrial development within them. This group of specialized people gives Post a competitive advantage in these areas. To date Post has drilled five wells within the City of Edmonton, including one horizontal well, and has not experienced a single complaint with regard to drilling or production operations. Being able to operate in these situations makes development of oil and gas properties in other parts of the province that much easier and more efficient.

Finding and on stream costs continue to be lower than the industry average, resulting in greater growth through increased spending. Post's assets are very focused geographically, with ninety five percent of its production coming from within 80 kilometers of the City of Edmonton. This area provides close and efficient access to the service industry and is also attractive from an operational stand point. Field staff in the Edmonton area are responsible for overseeing operations of all company wells and this close attention to Company assets promotes efficient and steady production. Continued acquisition, exploration and development are planned in existing company areas to take advantage of current infrastructure and geological expertise.

Post's exploration staff generates virtually every prospect it is involved in and Post will endeavor to operate every well it drills. With this philosophy Post's future growth is firmly in its own control.

1995 IN REVIEW

Post made advances in its development, operations and corporate areas during 1995. Its development drilling efforts in the Redwater, Acheson and Pembina areas resulted in increased production in these areas. A successful new pool wildcat well drilled in the Golden Spike area opened up development potential for more gas production in the area. Strategic acquisition of offsetting lands set the tone for 1996.

Operationally, Post continued to operate 95 percent of all drilling and over 90 percent of its production for the year. Capital expenditures increased 42 percent to 6.48 million dollars. Unit operating costs decreased by 15 percent as a result of development drilling in existing areas where production already existed. From a production perspective, highlights include:

- *Oil production increased 196 percent to average 470 bbls of oil per day;*
- *Gas production increased 372 percent to average 3,693 mcf of gas per day;*
- *1995 exit rates exceeded 1000 boe per day;*
- *Post's reserve additions replaced 1995 oil and gas production 3.4 times.*

Corporately, Post had very strong financial results in 1995. Cashflow from operations increased 145 percent to 27 cents per share and earnings doubled to 8 cents per share. These increases were the result of bringing new and existing reserves on stream. Post's capital program was funded from cashflow and increased bank debt. Bank debt at year end was less than one year's cashflow. Post completed a private placement of 1,143,000 flow through shares at a price of \$1.75/share on December 28, 1995. Each of these shares had a full warrant attached to it, with the right to purchase one share for the price of \$2.25 on or before June 30, 1996.

Also in December, Post entered into a plan of arrangement agreement with Prize Energy to merge the companies based on a share exchange ratio. Post viewed this transaction as a source of financing since Prize had significant cash on hand. Prize also had some interesting prospects along with exploration staff of interest to Post. Due to events subsequent to the signing of the agreement, the Board of Directors of Post decided the plan of arrangement was no longer in the best interest of Post shareholders. The plan of arrangement with Prize was, therefore, terminated in accordance with the arrangement agreement on March 1, 1996.

OUTLOOK FOR 1996

Post anticipates that 1996 will be a year of tremendous growth for the company based on significant finds and strategic land acquisitions made in 1995. Post has been able to maintain its success and growth during a difficult period of weak commodity prices and looks forward to new opportunities in 1996. This year the industry is expected to be more active which will result in the drilling of more prospects at increased cost. Awareness of the cyclical nature of this industry and the ability to spend capital wisely will again become a key to producing strong financial results.

For 1996, Post has a record capital budget of \$12 million, an increase of 85% from actual 1995 expenditures. This budget will be funded through cash flow, equity raised from outstanding warrants and bank debt. It is anticipated that Post will drill as many as 25 wells, at an average working interest of 90% in 1996.

Post's current production is 1085 boe/d and management estimates an additional 650 boe/d will be on stream by mid year. This additional production is awaiting pipeline construction necessary to transport these volumes.

Post's management is committed to increasing shareholder value and looks forward to an exciting year. On behalf of the board of directors, I would like to thank our shareholders for their continued confidence and support.



Timothy T. Hunt

President and Chief Executive Officer

Calgary, Alberta

April 17, 1996

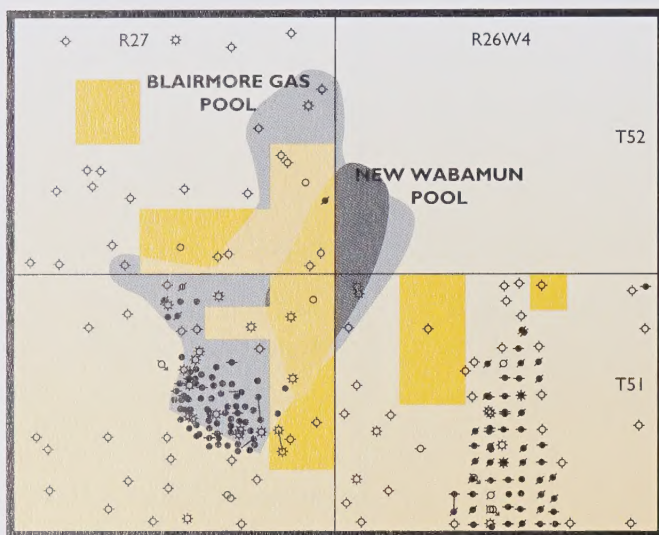


1995 was a year of exploration and development drilling for Post. Exploration drilling resulted in the discovery of a significant gas accumulation in the Golden Spike area. Development drilling in Acheson, Redwater and Pembina proved that opportunity exists for increased oil recovery in these areas and, therefore, provides Post with future low risk development drilling in its existing pools. Post will continue to pursue new acquisitions and exploration prospects that will provide Post greater economic returns, however, with more associated risk. Ninety-five percent of Post's production comes from within 80 kilometers of the City of Edmonton, which gives Post the ability to operate as efficiently and economically as possible.

GOLDEN SPIKE:

The Golden Spike area is located approximately 15 kilometers southwest of the City of Edmonton. The wells are located in an area of residential acreage development requiring close monitoring of day to day operations. In 1995, operational problems at a third party processing facility delayed

full production from the area until June. With over nine months of operating history behind it, Post estimates this facility should continue to run approximately 90 percent of the time. Net production from this area averaged 3.3 mmcf/d of gas and 80 bbls/d of oil. Year end production rates from this area were 4.2 mmcf/d of gas and 125 bbls/d of oil.



1995. The well was successful and encountered a prolific Basal Mannville channel. Thorough evaluation of offset wells indicated that this pool could be larger than initially anticipated and Post, therefore, acquired offsetting prospective lands.

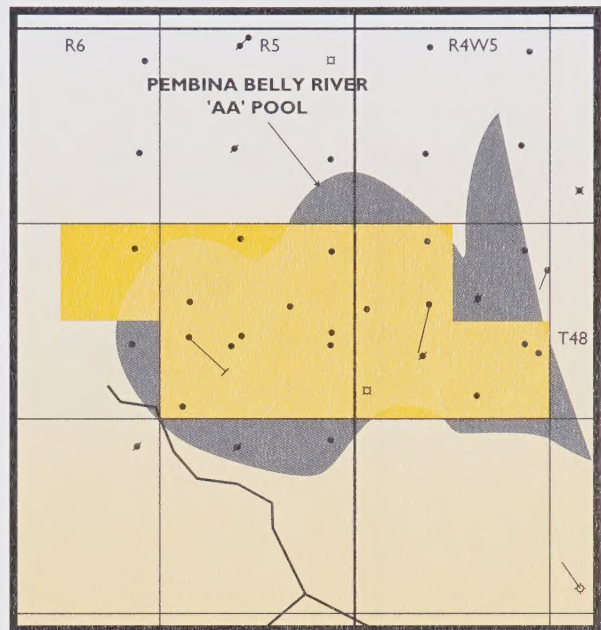
Post participated for 50 percent working interest in a new pool wildcat in August of

Since year end Post increased its interest in two Basal Mannville oil wells from 82.5 to 100 percent interest. Two infill oil wells were drilled and put on production in the first quarter of 1996. Post also increased its interest to 100 percent in the new gas discovery and drilled two offset gas wells to delineate the pool in the first quarter. A fifth well was drilled and cased as a potential gas well in this area and will be completed and tested later this year. Current production from this area is 3.7 mmcf/d of gas and 251 bbls/d of oil. Production from the new gas wells is expected by mid year. Expanding exploration and development in Golden Spike will continue to be a high priority for Post.

PEMBINA:

The Pembina property is located approximately 80 kilometers southwest of the City of Edmonton. Post has 100% working interest in the Belly River "AA" Unit and in a half section of land the Unit straddles. Production from the property increased 52 percent to exit 1995 at 144 bbls/d of sweet oil.

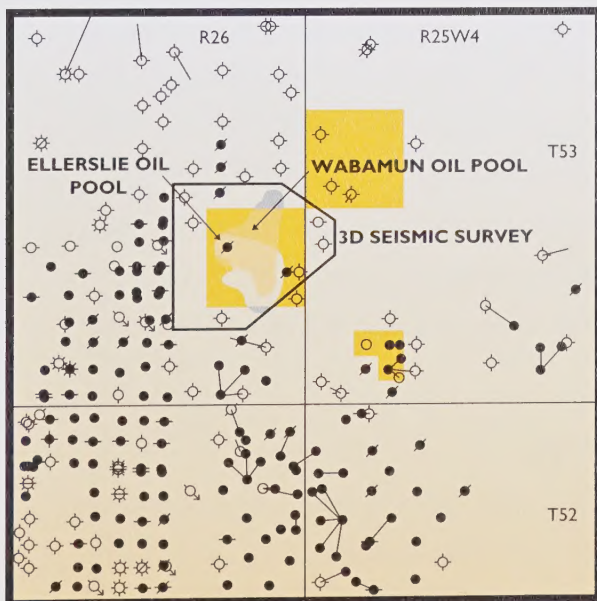
Post drilled one vertical well and two horizontal wells on this property in 1995. High water cuts were experienced in one of the horizontal wells and in the vertical well possibly due to their close proximity to the pools water disposal well. The other horizontal well produces at the lowest watercut in the pool, however, it has no better inflow than a typical vertical well. Post will evaluate and determine the optimal development program for this pool once adequate production history is obtained from the new wells. Production from the pool has been flat since the last vertical well was drilled in September, 1995. Further development drilling in this area is planned for late 1996.



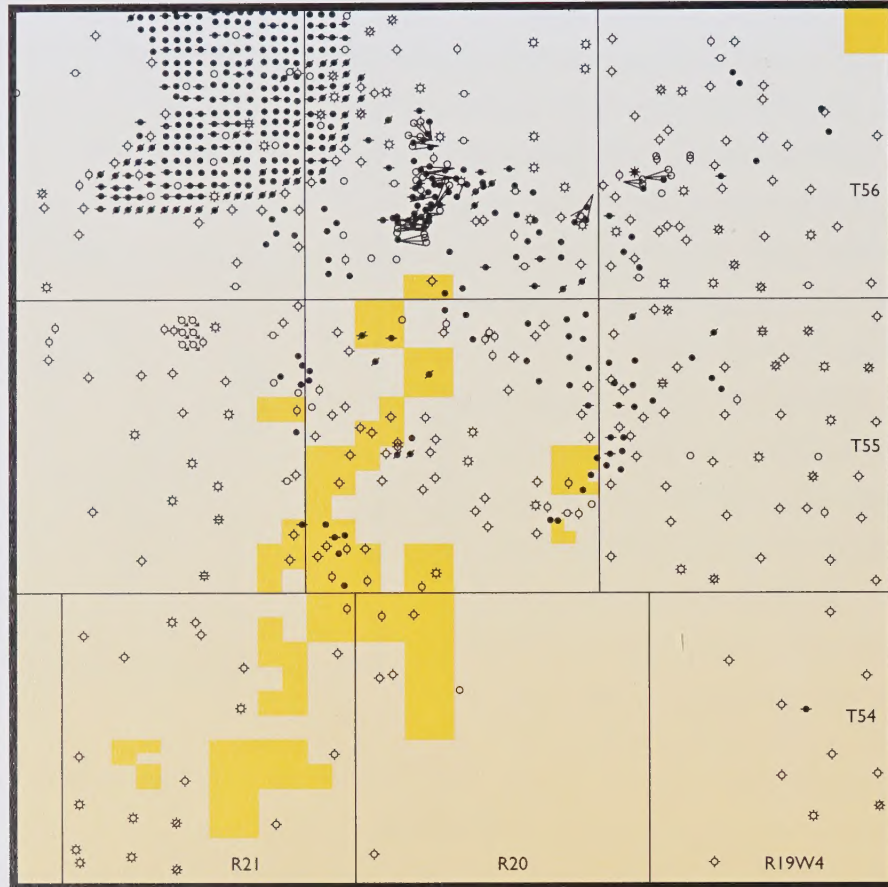
ACHESON:

Post's Acheson property is located on the west side of the City of Edmonton. This property is a Blairmore light oil pool that had not been thoroughly exploited to obtain maximum recovery. In 1995 Post drilled one vertical infill and one horizontal re-entry well. The vertical well successfully

intersected an undrained part of the pool, however, the horizontal well did not encounter good reservoir and has poor inflow. Production from this pool increased 125 percent to average 89 bbls/d, with a 1995 exit rate of 125 bbls/d of light oil.



Post also acquired 640 acres of land adjacent to our existing pool in 1995. This land has a abandoned well that was productive from two horizons. It was Post's plan to shoot a 3D seismic survey to evaluate the extent of these horizons. Post shot the program in early 1996 and has plans to drill the first stepout well in May 1996.



REDWATER:

The Redwater area is located approximately 30 kilometers northeast of the city of Edmonton. Post has over 6000 net acres of land and 450 km of seismic in this area. Production from the area is light oil from the Lower Mannville formation. Production from the Redwater area increased 285 percent to exit the year at 208 bbls/d of light oil. A development well was drilled in March, 1996 and completed as an oil well. Tie-in of this well and an offset well to the central battery will reduce future operating costs. Tie-in of the associated solution gas flared at the battery is being investigated. Approximately 1.5 mmcf/d of gas is being flared because of lack of infrastructure in the area. This area has both exploratory and development drilling potential and Post will continue to be active in this area in 1996.

OTHER PROPERTIES:

Post continues to have minor producing properties in the Camao, Bellshill and Malmo areas. Post cased a well drilled on an oil prospect in the Malmo area in the first quarter of 1996. Completion and evaluation of the well will be done by mid year.

DRILLING ACTIVITY

Post participated in the drilling of 20 wells (net 17.6) in 1995 with an average working interest of 88% and an overall success rate of 66%. Plans for 1996 will include drilling of both exploratory and development wells allowing Post to continue development of existing reserves as well as benefiting from potential exploration success.

	1995		1994	
	Gross	Net	Gross	Net
Oil	12.0	11.1	6.0	5.0
Gas	1.0	0.5	-	-
Service	-	-	1.0	0.5
Dry and abandoned	7.0	6.0	1.0	0.6
Total	20.0	17.6	8.0	6.1
Exploration	5.0	4.0	-	-
Development	15.0	13.6	8.0	6.1
Total	20.0	17.6	8.0	6.1
Success rate	66%		90%	
Average working interest	88%		76%	

RECONCILIATION OF RESERVES

Post increased its proven oil reserves by 12% and proven gas reserves by 90% in 1995. The increase in gas reserves was a result of drilling at Golden Spike.

	Oil (mbbls)			Gas (mmcf)		
	Proven	Probable	Total	Proven	Probable	Total
January 1, 1995	2,143	1,245	3,388	7,623	4,714	12,337
Revisions	(83)	(336)	(419)	2900	(2,519)	381
Discoveries	517	385	902	5,275	-	5,275
Production	(172)	-	(172)	(1,348)	-	(1,348)
December 31, 1995	2,405	1,294	3,699	14,450	2,195	16,645

RESERVES

Post's oil and natural gas reserves were evaluated by Sproule Associates Limited as at December 31, 1995. The present value before tax of future cash flow discounted at 15% was \$26,657,000, an increase of 19% from 1994.

Reserve Evaluation Based on Escalating Price Assumptions

	Reserves before Royalty Burdens		Present Value Before Tax of Future Cash Flow (\$000's)		
	Oil (mbbls)	Gas (mmcf)	10%	15%	20%
Proven producing	1,212	8,924	18,459	15,217	13,002
Proven developed non-producing	0	0	0	0	0
Proven undeveloped	1,193	5,526	9,031	6,059	4,099
Total proven	2,405	14,450	27,490	21,276	17,101
Probable	1,294	2,195	5,589	3,741	2,727
Total proven plus probable	3,699	16,645	33,079	25,017	19,828
ARTC			1,865	1,640	1,469
Total			34,944	26,657	21,297

Certain assumptions were made in the reserve evaluation as follows:

1) *The following price forecast was used:*

	Crude Oil WTI at Cushing Oklahoma (\$US/bbl)	Natural Gas (\$Cdn/mcf)
1996	18.77	1.19
1997	19.58	1.39
1998	20.42	1.66
1999	21.29	1.86
2000	22.20	2.02
2001	23.16	2.14
2002	24.15	2.23
Thereafter	Escalation rate of 4.25% to year 2011 and 3.0% thereafter.	

2) *Probable reserve values have been reduced by 50% to allow for risk.*

3) *Future operating and capital costs were inflated at 3% per annum.*

FINDING AND ON STREAM COSTS

Capital expenditures for finding and on stream costs were \$6,472,973 in 1995 compared to \$4,500,596 in 1994 resulting in finding and on stream costs of \$4.53 and \$2.19, respectively, per boe for proven plus probable reserve additions.

Petroleum and Natural Gas Property Expenditures

	1995	1994
Finding costs		
Land and property acquisition	1,766,050	1,452,292
Seismic	35,955	81,882
Drilling and completion	3,551,618	1,272,730
Capitalized general and administrative	137,606	74,346
	<u>5,491,229</u>	<u>2,881,250</u>
On Stream Costs		
Equipping	647,613	749,814
Facilities and gathering	334,131	869,532
	<u>981,744</u>	<u>1,619,346</u>
Total finding and on stream costs	<u>6,472,973</u>	<u>4,500,596</u>
Total proven plus probable reserve additions (mboe)	<u>1,430</u>	<u>2,512</u>
Finding and On Stream Costs per Barrel		
Finding costs	3.84	1.15
On stream costs	0.69	1.04
Total finding and on stream costs	<u>4.53</u>	<u>2.19</u>

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RESERVE LIFE INDEX

Post's reserve life index based on 1995 production is 13 years for proven reserves and 18 years for proven plus probable reserves. The index was high in 1994 as Golden Spike was included in the reserves but not the production.

	1995	1994
Based on proven reserves	13	34
Based on proven plus probable reserves	<u>18</u>	<u>53</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is management's opinion of Post's historical financial and operating results and should be read in conjunction with the audited financial statements of the Company for the years ended December 31, 1995 and 1994, together with the notes related thereto.

OVERVIEW

The year ended December 31, 1995, marked another year of solid growth for Post with significant increases in both net earnings and cash flow over 1994.

	1995	1994	% Change
Net earnings	\$ 813,444	\$ 375,506	117%
per share basic (\$)	0.09	0.05	80%
per share fully diluted (\$)	0.08	0.04	100%
Cash flow from operations	\$ 2,663,273	\$ 962,081	177%
per share basic (\$)	0.28	0.12	133%
per share fully diluted (\$)	0.27	0.11	145%
Total capital expenditures	\$ 6,480,185	\$ 4,548,309	42%

NET REVENUE

	1995		1994	
	(\$)	\$/Boe	(\$)	\$/Boe
Oil sales	3,756,203		1,138,175	
Gas sales	1,594,769		512,607	
	5,350,972	17.46	1,650,782	19.10
Royalties (net of ARTC)	(438,514)	(1.43)	(94,009)	(1.09)
Operating expenses	(1,586,458)	(5.18)	(528,611)	(6.12)
	\$ 3,326,000	10.85	\$1,028,162	11.89

The commencement of production in the Golden Spike area, the purchase of working interests in additional wells in the Redwater area along with two new wells drilled in the Acheson field contributed significantly to the 224% increase in net revenue in 1995 over 1994.

For the year ended December 31, 1995, oil production rose 196% to 470 bbls/d from 159 bbls/d in 1994. Crude oil prices averaged \$22.02 per bbl in 1995 and \$20.50 per bbl in 1994. Effective January 1, 1996, Post entered into an oil price hedge of 250 bbls/d at \$17.95 US per bbl until June 30, 1996. Management is continuously evaluating the merits of oil price hedging and will enter into additional hedges in the future in appropriate circumstances.

Post's gas sales rose 372% to 3,693 mcf/d in 1995 from 782 mcf/d in 1994. This significant increase was offset somewhat by the drop in average gas price to \$1.18 per mcf in 1995 from \$1.80 per mcf in 1994. The Company has contracted all of its gas production at Golden Spike and Camao at a price which is calculated based on a formula referencing TCGSL common contract price and the average monthly AECO-C daily spot gas price, as defined in the Gas Purchase Contract.

Royalties, net of ARTC, increased to \$438,514 in 1995 from \$94,009 in 1994. This increase is a direct result of the increase in oil and gas production experienced in 1995. The royalty cost per boe was \$1.43 in 1995 and \$1.09 in 1994. In 1995 only 57% of total crown royalty paid was eligible for ARTC compared with 75% in 1994. Four of the Golden Spike wells are restricted for ARTC purposes.

Operating expenses increased to \$1,586,458 in 1995 compared to \$528,611 in 1994 but decreased on a per boe basis to \$5.18 in 1995 from \$6.12 in 1994. Unit operating costs are expected to further decline in 1996 as production is expected to increase.

OTHER REVENUE

	1995		1994	
	(\$)	\$/Boe	(\$)	\$/Boe
Investment	1,591	0.01	174,329	2.02
Royalty	24,531	0.08	48,251	0.56
	26,122	0.09	222,580	2.58

Investment income in 1995 is down as all available cash was used to fund exploration activities. Royalty income in 1995 was earned primarily in the Provost area which saw significant decline in production in 1995.

GENERAL AND ADMINISTRATIVE EXPENSES

The following table summarizes the general and administrative expenses of the Company on a comparative basis.

	1995		1994	
	(\$)	\$/Boe	(\$)	\$/Boe
Total general and administrative	866,833	2.83	448,661	5.19
Capitalized geological and geophysical costs	(137,606)	(0.45)	(74,346)	(0.86)
Capital overhead recovery	(16,805)	(0.05)	(72,760)	(0.84)
Operating overhead recovery	(23,573)	(0.08)	(12,894)	(0.15)
	688,849	2.25	288,661	3.34

Increased costs in 1995 reflect a full year with seven full time staff members and costs associated with increased office space, supplies, utilities, public company expenses and bank fees associated with financing the Company's operating line. Costs decreased on a per boe basis to \$2.25 in 1995 from \$3.34 in 1994 as a result of higher production. General and administrative costs are expected to decrease on a per boe basis in 1996.

Capital overhead recoveries are lower in 1995 due to Post's commitment to maintain a high working interest in all properties. Operating overhead rose to \$23,573 in 1995 from \$12,984 in 1994 due to the start up of production at Golden Spike. A decrease in operating overhead recovery is expected in 1996 due to the acquisition of a third party's interest in the Golden Spike area early in the year.

DEPLETION AND DEPRECIATION

	1995		1994	
	(\$)	\$/Boe	(\$)	\$/Boe
Depletion and depreciation	1,369,846	4.47	359,934	4.17
Site restoration and abandonment costs	65,983	0.22	22,653	0.26
	1,435,829	4.69	382,587	4.43

The Company's average depletion rate decreased to 2.5% in 1995 from 3% in 1994. The provision for depletion and depreciation increased to \$1,369,846 from \$359,934 in 1994.

The provision for future site restoration and abandonment of wells and facilities increased to \$65,983 in 1995 from \$22,653 in 1994. Post had an interest in 22 producing wells in 1994 and 36 in 1995.

Post applies a ceiling test to their properties and equipment under the full cost method of accounting for oil and gas assets to ensure those costs do not exceed the estimated future net revenues from the production of proved reserves. The ceiling test was based on year end prices for oil and gas of \$22.72 and \$1.33, respectively. The Company did not experience any impairment in its capitalized costs at year end based on this calculation.

DEFERRED INCOME TAXES

The Company did not pay current income taxes or federal large corporations tax in 1995 or 1994. Deferred income taxes of \$414,000 were recorded in 1995 and \$203,988 in 1994.

CAPITAL EXPENDITURES

The following table summarizes the capital expenditures incurred by the Company on a comparative basis.

	1995	1994
Land and property acquisition	\$ 1,766,050	\$ 1,452,292
Seismic	35,955	81,882
Intangible drilling and completion	3,551,618	1,272,730
Tangible completion, equipping and facilities	981,744	1,619,346
Capitalized general and administrative	137,606	74,346
Furniture, fixtures and other	7,212	47,713
	\$ 6,480,185	\$ 4,548,309

In 1995 capital expenditures increased 42% over 1994. Post drilled 20 wells in 1995, 13 of these were cased, of which 12 are currently producing. Acquisitions during the year were made in the Redwater and Pembina areas as well as at crown land sales. Post's capital budget for 1996 is \$12 million which is expected to be financed by reinvestment of cash flow, equity raised from outstanding warrants, and the remainder from the unused portion of the existing production loan.

NET ASSET VALUE PER SHARE

	1995	1994	1993
Reserve value at 15% discount	\$ 26,657,000	\$ 22,500,000	\$ 13,455,000
Working capital (deficiency)	(457,348)	(396,434)	3,024,898
Undeveloped land and seismic	700,000	-	-
Production loan	(1,869,482)	-	-
Proceeds from the exercise of options and warrants	3,380,150	287,875	331,372
	28,410,320	22,391,441	16,811,270
Common shares - fully diluted	12,245,200	9,562,200	9,523,200
Net Asset Value per Share	\$ 2.32	\$ 2.34	\$ 1.77

Included in the fully diluted number of shares are 1,143,000 share purchase warrants exercisable on or before June 30, 1996 at \$2.25 per share. These warrants were issued in connection with the December 1995 flow through share issue.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 1995, Post had available a \$5,000,000 revolving production loan facility, of which \$1,869,482 was drawn down. The facility is secured by a \$10,000,000 demand debenture constituting a floating charge on Post's oil and gas properties. The interest rate charged on the facility is prime plus one half of one percent (0.5%), however, Post utilizes various financial instruments such as bankers' acceptances to achieve an overall lower effective interest rate. Management's policy with regards to debt financing is to remain within one and one half times cash flow.

BUSINESS RISKS AND PROSPECTS

The Company is exposed to a variety of business risks in the Canadian petroleum industry, including the following:

- every well drilled has the inherent risk of not yielding commercial quantities of hydrocarbons;
- there is uncertainty of recovering reserves in a timely and economically viable basis;
- there is uncertainty associated with the availability of a market to sell oil and natural gas production;
- the volatility of oil and gas prices, affected by economic factors beyond the Company's control, effect's Post's cash flow;
- the risk associated with the nature of capital markets, interest rates and foreign exchange differentials effect Post's profitability;
- the risk associated with the increasing level of regulatory intervention ranging from income taxes and royalty burdens to industry operating practices and environmental preservation.

Management of the Company minimizes these business risks as follows:

- employing a highly qualified staff of professionals;
- employing rigorous geological, geophysical, and engineering analysis on each new prospect;
- managing prospects with a healthy combination of exploration and development plays;
- striving to be a competitive low cost producer;
- employing experienced operations personnel highly efficient in optimizing reservoir recovery;
- utilization of commodity swaps, foreign exchange contracts and interest rate swaps to minimize financial and price risks;
- maintaining a strong and flexible financial position with a conservative approach to debt financing;
- protecting and maintaining the environment with respect to corporate operations.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF POST ENERGY CORPORATION

We have audited the balance sheets of **Post Energy Corporation** as at December 31, 1995 and 1994 and the statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1995 and 1994, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Alberta
March 15, 1996

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years Ended December 31, 1995 and 1994

	1995 \$	1994 \$
REVENUE		
Oil and gas sales	5,350,972	1,650,782
Royalties (net of Alberta Royalty Tax Credit)	(438,514)	(94,009)
	4,912,458	1,556,773
Interest and other	26,122	222,580
	4,938,580	1,779,353
EXPENSES		
Operating	1,586,458	528,611
General and administrative	514,017	288,661
Depletion and depreciation	1,435,829	382,587
Interest	174,832	-
	3,711,136	1,199,859
Earnings before income taxes	1,227,444	579,494
Deferred income taxes (Note 5)	414,000	203,988
NET EARNINGS	813,444	375,506
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	368,825	(6,681)
RETAINED EARNINGS, END OF YEAR	1,182,269	368,825
EARNINGS PER SHARE (Note 7)		
Basic	0.09	0.05
Fully diluted	0.08	0.04

BALANCE SHEETS

December 31, 1995 and 1994

	1995 \$	1994 \$
ASSETS		
Current assets		
Cash and short-term investments	-	116,695
Accounts receivable	554,553	463,138
Prepaid expenses	26,932	40,664
	581,485	620,497
Property and equipment (Note 3)	10,854,381	5,794,713
	11,435,866	6,415,210
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,038,833	1,016,931
Production loan (Note 4)	1,869,482	-
Provision for future site restoration and abandonment costs	91,289	25,306
Deferred income taxes (Note 5)	400,846	45,004
	3,400,450	1,087,241
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	6,853,147	4,959,144
Retained earnings	1,182,269	368,825
	8,035,416	5,327,969
	11,435,866	6,415,210

Approved by the board



Timothy T. Hunt
Director



Brian D. Heald
Director

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1995 and 1994

	1995 \$	1994 \$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings	813,444	375,506
Items not affecting cash		
Depletion and depreciation	1,435,829	382,587
Deferred income taxes	414,000	203,988
Cash flow from operations	2,663,273	962,081
Changes in non-cash operating working capital	6,564	(255,595)
Cash generated from operating activities	2,669,837	706,486
FINANCING		
Increase in production loan	1,869,482	-
Retirement of debentures on conversion	-	(2,000,000)
Issue of shares on debenture conversion, net of costs	-	1,988,868
Proceeds from issue of shares, net of costs	1,886,516	24,027
Changes in non-cash financing working capital	(83,135)	24,991
Cash generated from financing activities	3,672,863	37,886
INVESTING		
Additions to property and equipment	(6,480,185)	(4,548,309)
Proceeds from sale of property and equipment	-	152,000
Changes in non-cash investing working capital	20,790	449,316
Cash used in investing activities	(6,459,395)	(3,946,993)
NET CASH OUTFLOW	(116,695)	(3,202,621)
CASH POSITION, BEGINNING OF YEAR	116,695	3,319,316
CASH POSITION, END OF YEAR	-	116,695
CASH FLOW PER SHARE (Note 7)		
Basic	0.28	0.12
Fully diluted	0.27	0.11

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NOTES TO THE FINANCIAL STATEMENTS

Years Ended December 31, 1995 and 1994

I. AMALGAMATION AND BASIS OF PRESENTATION

Effective December 31, 1994, Post Energy Corporation ("Energy") and Post Petroleum Ltd. ("Petroleum") amalgamated and are continuing under the name Post Energy Corporation. Immediately following the amalgamation, the shareholders of Energy held 38% and the shareholders of Petroleum held 62% of the amalgamated company's common shares. The amalgamation has been accounted for on the pooling of interest basis. Based on this method of accounting for business combinations, the assets and liabilities of the entities are combined at their original carrying values, and operations are presented as if the entities had been combined since inception.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

Property and equipment

Capitalized costs

The Corporation follows the full-cost method of accounting for petroleum and natural gas properties whereby all costs relating to acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing properties, costs of drilling productive and non-productive wells, well equipment costs, and certain overhead expenditures related to exploration and development activities. Proceeds from disposal of properties are normally applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss on disposal will be recorded in the statement of earnings.

Depletion and depreciation

Depletion of oil and gas properties is provided using a unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. Units of natural gas have been converted into barrel of oil equivalents on a relative energy content basis at a ratio of six thousand cubic feet of gas to one barrel of oil.

Production equipment is recorded at cost and is depreciated, net of estimated residual value, using the unit-of-production method on the estimated useful life of reserves. Office equipment is depreciated using the declining balance method at rates varying from 20% to 100%.

Future site restoration and abandonment costs

The estimated costs for future site restoration and abandonment are provided for on a unit-of-production basis. Estimates are based on costs and regulations in effect at year end.

Ceiling test

The Corporation applies an annual ceiling test to capitalized costs, net of deferred income taxes, to ensure such costs do not exceed the estimated value of future net revenues from production, based on year end prices of proven reserves plus the lower of cost and estimated fair value of undeveloped lands, less future general and administrative expenses, future site restoration and abandonment costs, financing costs and income taxes. Any reduction in value as a result of the ceiling test is charged to earnings.

Flow-through shares

The Company has issued flow-through shares to finance a portion of its exploration and development activities. Pursuant to the terms of the offering memorandum, the tax benefits associated with the expenditures are renounced to the shareholders. To recognize the renunciation of the tax benefits, the carrying value of the property and equipment and share capital are reduced by the estimated amount of the tax benefits renounced to shareholders at the time the related expenditures are incurred.

3. PROPERTY AND EQUIPMENT

	1995 \$	1994 \$
Production equipment	3,410,222	2,148,349
Petroleum and natural gas properties	9,151,355	3,990,925
Furniture and equipment	62,274	55,063
	12,623,851	6,194,337
Less accumulated depletion and depreciation	1,769,470	399,624
	10,854,381	5,794,713

General and administrative expenses of \$137,606 (1994 - \$74,346) have been capitalized as petroleum and natural gas properties for the year ended December 31, 1995.

A provision of \$65,983 (1994 - \$22,653) for future site restoration and abandonment costs is included in depletion and depreciation expense.

4. PRODUCTION LOAN

The Corporation has available a revolving production loan facility to a maximum of \$5,000,000 bearing interest at prime plus one-half of a percent which is secured by a \$10,000,000 demand debenture constituting a floating charge on the Corporation's property and equipment. The facility is subjected to an annual review and as at December 31, 1995, \$1,869,482 was drawn under the facility.

5. DEFERRED INCOME TAXES

The provision for deferred income taxes differs from the amount computed by applying the combined statutory Canadian Federal and Provincial tax rates to earnings before income taxes. The reasons for these differences are as follows:

	1995 \$	1994 \$
Corporate income tax rate	44.34%	44.34%
Computed expected provision for income taxes	544,249	256,948
Increase (decrease) in taxes resulting from:		
Non-deductible crown charges	267,584	105,416
Alberta Royalty Tax Credit	(111,591)	(73,241)
Resource allowance	(263,682)	(80,328)
Non-taxable portion of capital gain	-	(8,696)
Other	(22,560)	3,889
Deferred income taxes	414,000	203,988

The following deductions are available for future income tax purposes:

	\$	Annual rate of claim
Canadian exploration expense	1,402,362	100%
Canadian development expense	2,886,852	30%
Canadian oil and gas property expense	2,611,075	10%
Undepreciated capital cost	2,518,685	20 - 100%
Share issuance expenses	258,778	5 years
Amalgamation expenses	74,598	7%
	9,752,350	

6. SHARE CAPITAL

	Number of Shares	Amount \$
Authorized		
Unlimited number of common shares		
Unlimited number of Class A preferred shares		
Unlimited number of Class B preferred shares		
Issued		
Balance, December 31, 1993	6,405,000	2,787,264
Shares issued on conversion of debentures, net of costs	2,791,200	1,988,868
Shares issued pursuant to stock option plan	147,000	147,000
Amalgamation costs	-	(76,158)
Tax effect of share issue costs previously not recognized	-	112,170
Balance, December 31, 1994	9,343,200	4,959,144
Shares issued pursuant to stock option plan	6,000	6,000
Shares issued on private placement of flow-through shares	1,143,000	2,000,250
Tax benefits renounced relating to flow-through shares	-	(50,671)
Share issue costs, net of income taxes	-	(73,006)
Common shares at December 31, 1995	10,492,200	6,841,717
Warrants issued during the year	1,143,000	11,430
Total share capital		6,853,147

Flow-through shares

Pursuant to an offering memorandum dated December 20, 1995, the Company issued 1,143,000 units, each unit consisting of one common share issued on a flow-through basis at a price of \$1.75 each, and one common share purchase warrant at a price of \$0.01 each. The terms of the flow-through provide that the Company will renounce tax deductions in the amount of \$1,870,862 (net proceeds) of qualifying expenditures on or before March 1, 1997. As at March 15, 1996, a qualifying expenditure of \$1,500,188 had been renounced, of which \$114,279 were incurred in 1995.

Stock option plan

On September 9, 1993, the directors and shareholders of the Corporation authorized a stock option plan for directors, officers, key employees and consultants of the Corporation to purchase common shares. The shares can be purchased at exercise prices equal to the market price on the date the option is granted.

At December 31, 1995, 610,000 options are outstanding with an exercise price ranging from \$1.00 to \$2.00. These stock options expire on various dates starting September 9, 1997 to July 1, 1999.

Warrants

During 1995, the Company issued 1,143,000 warrants in conjunction with the flow-through shares issued. Each warrant can be exercised to purchase one common share at a price of \$2.25 until June 30, 1996.

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Escrow agreement

Pursuant to an escrow agreement dated as of December 31, 1994, an aggregate of 812,802 common shares are being held in escrow. These escrowed shares will be released from escrow on June 30, 1996.

Conversion of debentures

During 1994, \$2,000,000 debentures were converted to 2,791,200 common shares based on the net asset value of the Petroleum common shares at April 30, 1994.

7. EARNINGS AND CASH FLOW PER SHARE

	1995 \$	1994 \$
Net earnings attributable to common shares (\$)	813,444	375,506
Per share (\$)	0.09	0.05
Per share fully diluted (\$)	0.08	0.04
Cash flow from operations (\$)	2,663,273	962,081
Per share (\$)	0.28	0.12
Per share fully diluted (\$)	0.27	0.11
Weighted average number of common shares outstanding		
Basic	9,360,838	8,339,014
Fully diluted	9,964,005	8,626,061

8. SUBSEQUENT EVENT

Subsequent to year end, the Company has entered into an agreement with a large financial institution to hedge against fluctuations in oil prices for a total of 45,500 barrels of crude oil (7,250 to 7,750 barrels per month) at \$17.95 U.S. per barrel, until June 1996.

BOARD OF DIRECTORS

Timothy T. Hunt

President, Chief Executive Officer,
and Chief Financial Officer
Calgary, Alberta

John J. Dietrich

President, Concrest Corporation Ltd.
Calgary, Alberta

Brian D. Heald

Vice-President, Corporate Finance,
James Capel Canada Inc.
Calgary, Alberta

Derek Martin

Vice-President, Corporate,
Enserv Corporation
Calgary, Alberta

OFFICERS AND SENIOR PERSONNEL

Timothy T. Hunt

President, Chief Executive Officer,
and Chief Financial Officer

Barry J. Wasyliw

Vice President, Operations

Darren A. Steffes

Exploration Manager

John N. Charuk

Land Manager

Ulla B. Fuss

Controller

Jeffrey E. Dyck

Secretary

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AUDITORS

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EVALUATION ENGINEERS

Sproule & Associates
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REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
530 - 8th Avenue S.W.
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EXCHANGE LISTING

The Alberta Stock Exchange
Stock Symbol: PSN



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